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Abstract

Electricity service is essential to modern life, yet the struggle to keep electricity within democratic control is being lost. Electricity systems are being progressively sold off and deregulated as if they were simple commodities in the market place, and decisions about electricity supply and distribution are being relegated to market forces.

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Who's Got the Power?

Sharon Beder

Electricity service is essential to modern life, yet the struggle to keep electricity within democratic control is being lost. Electricity systems are being progressively sold off and deregulated as if they were mere commodities in the market place, and decisions about electricity supply and distribution are being relegated to market forces.

Many countries nationalized their electricity industries in the mid-twentieth century because they recognized the benefits of long-term government planning and coordination. Governments were found to be better able to raise the large amounts of money to expand electricity networks and to wait long periods for returns on the investment.

In public electricity systems planning and long-term forecasting of demand was an essential part of ensuring a reliable electricity supply and avoiding the blackouts and crises that come with shortages. Expert forecasters needed to consider population growth, demand fluctuations, weather patterns, and future generation capacity because the large-scale power plants that ensured economies of scale took years to build and operated for decades.

Often there was a tendency for government authorities to overestimate future demand rather than underestimate it, particularly since failing to provide a secure and reliable electricity supply could have severe political consequences. Despite this, the costs of oversupply were cushioned by the falling cost of electricity generation and transmission, at least until the advent of nuclear power.

Economies of scale combined with technological advances ensured that the electricity supply in industrialized nations was reasonably priced despite the maintenance of reserve capacity. And the cheap electricity promoted more consumption and further growth. However, in the 1970s electricity prices increased dramatically in many countries because of the costs of building nuclear power plants, rising interest rates, and the escalating costs of oil following the oil crisis.¹

In the 1980s governments began to favor cuts in government spending over the long-term reliability of electricity supply. And in the 1990s when electricity was liberalized, privatized, and deregulated in many nations, the planning function of government bureaucracies was abandoned altogether and surrendered to market forces.

Market forces were supposed to ensure there was enough supply, because the market was assumed to have the ability to balance supply and demand through competition. In practice the market has turned out to be a poor mechanism for ensuring adequate supply. Private electricity companies in a deregulated competitive environment are loath to build reserve capacity in case they are not able to get an adequate return on their investment, and this undermines system reliability, particularly in times of escalating demand. Moreover, in times of shortages, the market system rewards companies with much higher prices.

Analysts admit that an unplanned market tends to produce a pendulum effect between too much power and too little. Companies are reluctant to invest in new capacity until a prolonged period of shortage, when they all rush to build new capacity to take advantage of the high prices, creating a glut until demand catches up again. In a market no one is responsible for ensuring adequate generation or transmission facilities into the future. This does not matter with most commodities, but it can lead to crises in the case of electricity supply.

USA

In the United States the struggle over control of electricity dates back to the earliest days of electrical power at the end of the nineteenth century. From the outset private electricity companies in the US competed with municipal electricity suppliers by promoting the belief that public ownership of essential services threatened the “American way of life,” because it “reeked” of socialism.²

Private power companies used all the techniques of agenda setting, political influence, and public relations that we have come to associate with the modern corporation to promote private ownership with minimal regulation. Together they launched one of the largest nationwide propaganda campaigns ever undertaken. The campaign targeted schools, churches, banks, community groups, and the media, promoting the industry view that private electric utilities represented free enterprise.³

Utility propaganda committees set up in individual states were coordinated by the National Electric Light Association (NELA). They “buttonholed legislators and public officials. College professors, students, editors, lecturers, were secretly placed on utilities payroll . . . Textbooks that told the truthful history of utilities finance were censored, and more agreeable writings procured in their place. A relentless campaign was conducted against the Bolshevik heresy of public ownership.”⁴ NELA and individual companies organized and paid for outings and perks for influential people including politicians, educators, business people, and newspaper editors.⁵

Shielded by their propaganda, the power companies grew into massive holding companies in the 1920s, forerunners of modern multinational corporations. These holding companies resorted to accounting tricks to manipulate stock prices and rates of return, exploited subsidiaries and came to dominate the electricity sector. Then during the great depression some of these holding companies went bankrupt, employees lost their jobs and shareholders, who had invested their life savings in company stock, lost everything. The struggles for public power in the 1920s and 1930s shaped the electricity system for decades to come. The establishment of publicly controlled electricity systems, including the Tennessee Valley Authority (TVA) projects and other federal hydro-electric schemes, as well as rural electricity cooperatives, were fought every inch of the way by the private utilities.

The public disgust and disillusionment with how giant unregulated power companies behaved allowed President Franklin D. Roosevelt to pass legislation to rein in their power, despite the vigorous opposition of the companies themselves. It took several decades for Americans to forget the lessons of the past and allow this legislation to be weakened and repealed.

In the 1980s even the limited public control that governments exercised over electricity supply in the US came under attack. The reinvigoration of the struggle for private control of electricity was fostered by a new business sponsored ideological movement that had emerged in the 1970s. Deregulation was pushed by large industrial consumers of electricity as well as unregulated power companies trying to break into monopoly territories, using neoliberal arguments supplied by think tanks to make their case in a way that hid their self-interested greed. Today's power companies are again large, multi-limbed monsters that engage in the excesses and abuses that Roosevelt's legislation sought to prevent.

The first state to deregulate electricity was California in 1996. Private companies manipulated wholesale electricity prices by strategically withdrawing generating capacity. This created a crisis, leading to a series of blackouts, billions of dollars in bailout costs to the state, and huge rate increases in areas where utilities were able to pass the price on to consumers. Some cities such as Los Angeles were unaffected because their electricity systems were still publicly owned.⁶

Electricity deregulation in other states led to large price increases and a massive reduction of the utility workforce. More than 150,000 people lost their jobs, including those who were responsible for the safety and reliability of electricity supplies. The resulting lack of maintenance caused blackouts in New York City and Chicago when powerlines and transformers overheated and failed.⁷

Over the following decade electricity blackouts increased year by year across the US as a result of lack of investment in electricity infrastructure. By 2014 the US was suffering more electricity blackouts than any other developed nation.⁸

UK

A struggle for control of electricity also occurred in the early development of Britain's electrical system. However, private companies did not have the resources to back these arguments up with massive propaganda campaigns, nor were they able to manipulate municipal councils to the extent that American companies did. As a result public sentiment favored public ownership in the early twentieth century, and most municipalities owned their own electricity systems.

The British government nationalized the whole electricity industry after World War II, buying up all the private companies and taking over those owned by municipalities. Nationalization was the result of a widely held belief that centralized government ownership would enhance social welfare and facilitate economic development.

Nevertheless in the late 1980s Britain was one of the first nations to slide backwards and privatize its electricity industry, even though the majority of citizens opposed it.⁹ Business groups and associations played an active role in promoting privatization, as did individual corporations, consultants, and financial institutions that saw potential profit for themselves. Corporate-funded think tanks played a major role in providing a rationale for privatization in the UK and in setting out the policy prescriptions for it.¹⁰

A major ideological aim of the think tanks and Prime Minister Margaret Thatcher's party was to reduce the role of government. They characterized government control of

services such as electricity as “government interference.” By their 1983 re-election, the Conservative Thatcher Government had also decided that raising money through privatization was more politically acceptable than raising taxes or cutting public spending. This was a short-term view, because privatization also deprived the government of valuable income streams.

The history of British electricity shows how much the privatization process was driven by ideology. The export of the British privatization model to other countries meant that the ideologies and politics behind it shaped electricity supply around the world, while few of the adoptee countries learned from Britain’s mistakes.

Its method of fragmenting integrated electricity systems into separate generation, transmission, distribution, and retail supply companies became the *modus operandi* for privatization and deregulation worldwide. And its power pool for setting wholesale electricity prices, which was discarded in Britain as unworkable, was nevertheless copied by other countries, including Brazil, Australia, and the state of California.

Today more than six million UK households are defined as living in fuel poverty, and tens of thousands of British people die each winter as a result of this. Rapidly rising electricity bills are a large contributor.¹¹

LATIN AMERICA

In Latin America, Asia, and Africa, electricity privatization was typically introduced because of pressure from the World Bank, the International Monetary Fund (IMF), and regional development banks. Since the 1980s the World Bank and IMF have required privatization of public services as a condition of their loans. This has benefited banks, multinational corporations, and international financial institutions, often at the expense of local business, and always at the expense of the poor. In Africa such “assistance” caused a 23 percent drop in incomes.¹²

New markets opened up all over the world as multinational companies moved in to developing nations to provide their essential services. Between 1988 and 1993 approximately 2,700 state-owned enterprises in ninety-five countries were transferred to private hands.¹³

Privatization in developing nations is good for the development banks because the money raised by the asset sales helps governments to pay the interest on their debts, at least in the short term. It is also good for multinational corporations because they are able to buy profitable government assets and have more opportunities to sell their products and services into new markets, often with heavy taxpayer-funded subsidies. However, privatization of services such as electricity has led to more unemployment and increasingly unaffordable prices, often without improving the quality, capacity, or reliability of the electricity system.

Privatization has been adopted in virtually every Latin American country except Cuba. Anti-privatization movements emerged in the 1990s in many of these countries, and public opposition grew. In the early twenty-first century they began voting for left-wing candidates willing to protect the national interest against the World Bank and IMF pro-market formulas.¹⁴

Venezuelans elected a leftist government led by Hugo Chavez, promising to scale back market reforms. In 2007 Venezuela renationalized the nation's electricity distributor and generation companies, and today they remain under state control. In Bolivia, which had been among the earliest privatizers in Latin America in the 1980s, indigenous rights activist Evo Morales was elected president in 2006, after promising to nationalize public services and industries. Between 2010 and 2013 Bolivia's electricity distribution, transmission, and generation companies were renationalized.¹⁵ In Ecuador the sale of seventeen electricity distributors was canceled because of strong opposition.¹⁶

In Peru there was "a rising tide of citizen opposition to government efforts to sell assets to the private sector," with 70 percent of those surveyed expressing opposition to privatization. The sale of two electric utilities to a Brussels-based firm was shelved after six days of protests in Arequipa and six other cities in 2002. The people of Peru, as elsewhere in the developing world, were promised prosperity and modernization as a result of privatization, but all they could see was massive job losses, higher prices, and poverty.¹⁷

Privatization of electricity in Brazil was mandated by the World Bank, and in 1995 its electrical utilities were purchased by a complicated web of foreign private investors that included Enron. Brazil was once admired and envied for its plenitude of cheap electricity, made possible by harnessing wild rivers. However by 2001 this system, which had worked reliably for decades, broke down. Brazil faced such a shortage of electricity that rationing had to be implemented, causing economic and social disruption.¹⁸

Brazil's electricity problems were caused by a combination of drought and a lack of generating capacity, even though government experts had warned that an impending crisis would result from dwindling water storage. Even so, the private companies failed to invest in the necessary power generation, instead passing on profits directly to foreign shareholders. Consumers experienced massive price increases while the foreign owners repatriated profits and avoided investment in new generating capacity to meet rising demand.¹⁹ Incomes declined by 3 percent, and Luiz Inacio Lula Da Silva, a candidate from the Workers Party, was elected as president in 2002.

Fourteen years later, although the Lula government has increased government control of the electricity system, it still relies on private investment for electricity generation and Brazil is again experiencing rolling blackouts as a result of lack of generating capacity in a time of drought. Moreover, unscheduled blackouts resulting from faults and power shortages are commonplace; between January 2011 and February 2014, there were over 180 blackouts.²⁰

MULTINATIONALS

Before privatization and the rise of multinational electricity companies, it was governments that planned, funded, and operated electricity systems so decisions affecting households remained within national borders. However, with privatization in the late 1980s and 1990s, this changed. Multinational companies grew increasingly voracious, taking over competing companies and national services. Consequently privatization of services has not only transferred publicly-owned assets into private

hands, but also into the hands of fewer and fewer companies, many based in Europe or the US, and even to foreign state-owned companies such as Electricité de France (EdF).

By the turn of the century large electricity companies were “already exceptionally well placed to operate jointly or to form a cartel to pressure governments, control prices and limit competition.”²¹ These companies have little interest in the welfare of local citizens. As Former California Governor Gray Davis belatedly moaned, in a state of the state speech in 2000: “We have surrendered the decisions about where electricity is sold, and for how much, to private companies with only one objective: maximizing unheard-of profits.”²²

Many energy, water, and other service corporations are now so large that they are more powerful than local governments. This makes it very difficult for those governments to enforce terms of contracts relating to performance or to say no to rate increases without fear of retaliation. Foreign owners can withhold services for political and economic reasons, thereby cutting off an essential part of a nation’s economic system—and the governments cannot do a thing about it.

Retaliation threats are also made against more powerful governments. In 1998 when Quebec was experiencing an electricity crisis, a private US company shut down its plant until it could get the price it wanted for its electricity. US companies also shut down electricity supply in the Dominican Republic to force the government to pay its debt to them.²³

In Puerto Rico the reliance on expensive imported petroleum has driven electricity prices higher than those in US cities. For this reason the government-owned electricity company, PREPA, has subsidised electricity for the poor and for some city governments, schools and hotels.²⁴ Consequently it has a multibillion dollar debt. Some politicians have been advocating privatization as a solution, arguing that private firms will be more efficient.²⁵ However, private firms will be more “efficient” by cutting subsidies so that the poor will no longer have access to electricity. They are unlikely to invest money in making the shift to local renewable sources of energy that would lower the cost of electricity in the long-term.

If privatization and deregulation are taken to their logical end, the public in nations around the world will be unable to influence the development of essential services, the terms of their provision, the reliability of their supply, their accessibility, or their price. These decisions will all be made by cartels of multinational corporations whose primary motivation is profit and power. These cartels will be able to exercise power over national, state, and local governments.

Current trends suggest that these service multinationals will become not merely “power centers” but “global centers,” owning systems extending across entire continents, including electricity, natural gas, water, waste management, and telecommunications. Given what is at stake it is little wonder that the push for privatization and deregulation has been strong and relentless.

Professor Sharon Beder is author of *Power Play: The Struggle to Control the World’s Electricity* and a website on Business-Managed Democracy at herinst.org/BMD

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